Emakhazeni Local Municipality
(Registration number MP314)
Annual Financial Statements
for the year ended 30 June 2020

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(Registration number MP314)
Annual Financial Statements for the year ended 30 June 2020

General Information

Legal form of entity	Local Municipality MP314
Nature of business and principal activities	Municipality -provide democratic and accountable government for the community -to ensure the provision of services to the community in a sustainable manner;-to promote social and economic development; -to promote a safe and healthy environment; and -to encourage the involvement of the community and community organisations in the matters of the municipality. Legislation governing the operations of the municipality includes but are not limited to the following:- Municipal Structures Act 117 of 1998-Local Government: Municipal Systems Act 32 of 2000-Local Government: Municipal Finance Management Act 56 of 2003

Councillors

Executive Mayor	Cllr.T.D Ngwenya	
Speaker	Cllr. N.A Mashele	
Mayoral Committee	Cllr. M. Nkambula	MMC Finance & Social Development
	Cllr. S.S Mthimunye	MMC: Infrastructure, Planning and LED/IDP
	Cllr. T.E Scheefers	MMC: Corporate Services
Councillors	Cllr. M.P Ntuli	MPAC Chairperson
	Cllr. T.N. Masha	Chairperson: Infrastructure, Planning & LED/IDP Section 79 Committee
	Cllr. T.C Ngomane	Chairperson: Corporate Services Section 79 Committee
	Cllr. J.T Duma	Chairperson: Finance & Social Development Section 79 Committee
	Cllr. ES Radebe	Member
	Cllr. R. Ndlovu	Member
	Cllr. AA Botha	Member
	Cllr. S.I Skhosana	Member

Grading of local authority	Grade 2
Accounting Officer	Mr GC Mthimunye
Business address	25 Scheepers Street Belfast 1100
Postal address	P.O Box 17 Belfast 1100
Bankers	First National Bank
Auditors	Auditor General of South Africa

General Information

Attorneys	Nomaswazi Shabangu Attorneys Ntull Noble Inc. B.V Mbungela Attorneys Mmela Mtshweni Attorneys Mnisi Nyemebe Attorneys Ndobela Lamela Attorneys Nkgadima Attorneys T.C Rampatla Attorneys Nkosi Nkosana Attorneys Kunene Ramapala Attoneys
Chief Financial Officer (CFO)	Mr S Leshage (Acting)
Email:	municipality@emakhazenilm.co.za
Municipal website	www.emakhazeni.gov.za
Contact details	Te: (013) 253 7600

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The reports and statements set out below comprise the annual financial statements presented to the council:

COID	Compensation for Occupational Injuries and Diseases
MFMA	Municipal Finance Management Act
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
CIGFARO	Chartered Institute of Government Finance Audit and Risk Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
DORA	Division of Revenue Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
FMG	Finance Management Grant
EPWP	Expanded Public Works Programme
WSIG	Water Services Infrastructure Grant
INEP	Intergrated National Electrification Progarmme

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's internal and external auditors. These assurance service providers serves to assist with the monitoring of internal controls and performance of the municipal administration

Due to the impact of COVID-19 the deadline for submission of the annual financial statements was extended by a period of two months as per Government Gazette 43582 published on the 05th of August 2020. The Gazette invokes the provisions of section 177 (1)(b) of the MFMA 2003 (Act No.56 of 2003).

The annual financial statements set out on pages 5 to 83, which have been prepared on the going concern basis, were approved by the Municipal Manager on 30 October 2020 and were signed on its behalf by:

Mr GC Mthimunye
Municipal Manager

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Inventories	7	5,121,018	1,929,331
Operating lease asset	8	-	1,667,265
Receivables from exchange transactions	9&10	36,756,640	38,046,329
Receivables from non-exchange transactions	11&10	116,139,397	116,529,198
Cash and cash equivalents	12	39,575,750	40,680,400
		197,592,805	**198,852,523**
Non-Current Assets			
Investment property	3	226,014,538	227,704,881
Property, plant and equipment	4	1,381,570,769	1,338,448,810
Intangible assets	5	329,715	422,994
Heritage assets	6	114,325	114,325
		1,608,029,347	**1,566,691,010**
Total Assets		**1,805,622,152**	**1,765,543,533**
Liabilities			
Current Liabilities			
Payables from exchange transactions	13	98,723,430	89,189,430
VAT payable	14	4,695,589	8,032,790
Consumer deposits	15	1,855,017	1,828,350
Employee benefit obligation	17	920,000	640,000
Unspent conditional grants and receipts	16	4,395,576	9,978,585
Provisions	18	3,040,639	-
		113,630,251	**109,669,155**
Non-Current Liabilities			
Employee benefit obligation	17	13,338,000	10,706,000
Provisions	18	89,516,285	89,021,618
		102,854,285	**99,727,618**
Total Liabilities		**216,484,536**	**209,396,773**
Net Assets		**1,589,137,616**	**1,556,146,760**
Accumulated surplus		1,589,137,616	1,556,146,746

* See Note 44 & 45

Statement of Financial Performance

Figures in Rand	Note	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	123,760,053	110,610,412
Rental of facilities and equipment	20	325,068	243,250
Licences and permits	21	-	325
Other revenue	28	2,832,976	2,140,628
Interest received - investment	23	2,434,207	3,781,378
Actuarial gains		146,000	-
Total revenue from exchange transactions		**129,498,304**	**116,775,993**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	50,957,020	49,113,321
Transfer revenue			
Government grants & subsidies	25	192,657,156	133,519,059
Fines, Penalties and Forfeits	27	45,626,897	87,007,155
Total revenue from non-exchange transactions		**289,241,073**	**269,639,535**
Total revenue	29	**418,739,377**	**386,415,528**
Expenditure			
Employee related costs	30	(103,344,445)	(98,814,255)
Remuneration of councillors	31	(7,171,335)	(6,462,508)
Depreciation and amortisation	32	(34,584,519)	(56,519,922)
Impairments	33	(81,845,560)	(33,617,903)
Finance costs	35	(11,210,917)	(4,906,927)
Repairs and Maintenance	34	(6,835,201)	(5,216,567)
Bulk purchases	36	(57,937,332)	(47,489,624)
Contracted services	37	(5,872,639)	(6,101,011)
Loss on disposal of assets and liabilities		(4,514,831)	(1,138,975)
Fair value adjustments		(3,611,000)	(30,315,992)
Actuarial losses		-	(630,000)
Loss on landfill sites valuation		(23,060,677)	(20,925,730)
General Expenses	38	(39,224,119)	(42,896,594)
Total expenditure		**(379,212,575)**	**(355,036,008)**
Surplus for the year		**39,526,802**	**31,379,520**

* See Note 44 & 45

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	978,769,987	978,769,987
Adjustments		
Correction of errors	545,997,239	545,997,239
Balance at 01 July 2018 as restated*	**1,524,767,226**	**1,524,767,226**
Changes in net assets		
Surplus for the year	31,379,520	31,379,520
Total changes	31,379,520	31,379,520
Restated* Balance at 01 July 2019	**1,549,610,814**	**1,549,610,814**
Changes in net assets		
Surplus for the year	39,526,802	39,526,802
Total changes	39,526,802	39,526,802
Balance at 30 June 2020	**1,589,137,616**	**1,589,137,616**

* See Note 44 & 45

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Service Charges		214,287,912	158,908,280
Grants		192,657,156	128,698,557
Interest income		2,434,207	3,781,378
Other revenue		2,618,583	1,340,700
Fines,Penalties and Forfeits		2,838,000	102,398,340
		414,835,858	395,127,255
Payments			
Employee costs		(102,022,398)	(103,849,927)
Suppliers		(179,391,776)	(128,024,851)
Finance costs		(11,210,917)	(4,906,927)
		(292,625,091)	(236,781,705)
Net cash flows from operating activities	40	**122,210,767**	**158,345,550**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(97,250,894)	(135,262,229)
Proceeds from sale of property, plant and equipment	4	(3,004,189)	-
Proceeds from sale of investment property	3	343	-
Net movement in assets		(23,060,677)	(20,925,730)
Other cash item		-	341,876
Net cash flows from investing activities		**(123,315,417)**	**(155,846,083)**
Net increase/(decrease) in cash and cash equivalents		**(1,104,650)**	**2,499,467**
Cash and cash equivalents at the beginning of the year		40,680,400	38,180,933
Cash and cash equivalents at the end of the year	12	**39,575,750**	**40,680,400**

* See Note 44 & 45

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	127,528,838	8,999,000	**136,527,838**	123,760,053	**(12,767,785)**	Note 57
Rental of facilities and equipment	1,293,678	-	**1,293,678**	325,068	**(968,610)**	Note 57
Other income - (rollup)	3,722,424	-	**3,722,424**	2,832,976	**(889,448)**	Note 57
Interest revenue	5,323,445	-	**5,323,445**	2,434,207	**(2,889,238)**	Note 57
Total revenue from exchange transactions	**137,868,385**	**8,999,000**	**146,867,385**	**129,352,304**	**(17,515,081)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	61,433,824	-	**61,433,824**	50,957,020	**(10,476,804)**	Note 57
Transfer revenue						
Government grants & subsidies	157,952,770	-	**157,952,770**	192,657,156	**34,704,386**	Note 57
Fines, Penalties and Forfeits	18,368,119	-	**18,368,119**	45,626,897	**27,258,778**	Note 57
Total revenue from non-exchange transactions	**237,754,713**	**-**	**237,754,713**	**289,241,073**	**51,486,360**	
Total revenue	**375,623,098**	**8,999,000**	**384,622,098**	**418,593,377**	**33,971,279**	
Expenditure						
Personnel	(103,656,909)	(2,182,233)	**(105,839,142)**	(103,344,445)	**2,494,697**	Note 57
Remuneration of councillors	(6,957,000)	-	**(6,957,000)**	(7,171,335)	**(214,335)**	Note 57
Depreciation and amortisation	(37,592,532)	(25,252,468)	**(62,845,000)**	(34,584,519)	**28,260,481**	Note 57
Impairment loss/ Reversal of impairments	(49,315,915)	607,128	**(48,708,787)**	(81,845,560)	**(33,136,773)**	Note 57
Finance costs	(4,000,000)	-	**(4,000,000)**	(11,210,917)	**(7,210,917)**	Note 57
Bulk purchases	(52,343,423)	(4,000,000)	**(56,343,423)**	(57,937,332)	**(1,593,909)**	Note 57
Contracted Services	(8,400,000)	(1,000,000)	**(9,400,000)**	(5,872,639)	**3,527,361**	Note 57
General Expenses	(54,412,847)	149,242	**(54,263,605)**	(46,059,320)	**8,204,285**	Note 57
Total expenditure	**(316,678,626)**	**(31,678,331)**	**(348,356,957)**	**(348,026,067)**	**330,890**	
Operating surplus	**58,944,472**	**(22,679,331)**	**36,265,141**	**70,567,310**	**34,302,169**	
Loss on disposal of assets and liabilities	-	-	**-**	(4,514,831)	**(4,514,831)**	
Fair value adjustments	-	-	**-**	(3,611,000)	**(3,611,000)**	Note 57
Actuarial gains/losses	-	-	**-**	146,000	**146,000**	Note 57
Gain and losses	(640,549)	(47,019,867)	**(47,660,416)**	(23,060,677)	**24,599,739**	Note 57
	(640,549)	**(47,019,867)**	**(47,660,416)**	**(31,040,508)**	**16,619,908**	
Surplus before taxation	**58,303,923**	**(69,699,198)**	**(11,395,275)**	**39,526,802**	**50,922,077**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**58,303,923**	**(69,699,198)**	**(11,395,275)**	**39,526,802**	**50,922,077**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Reconciliation						

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	-	-	5,121,018	**5,121,018**	Note 58
Receivables from exchange transactions	-	-	-	90,859,575	**90,859,575**	Note 58
Receivables from non-exchange transactions	(5,796,984)	296,985	**(5,499,999)**	116,139,397	**121,639,396**	Note 58
Cash and cash equivalents	(9,076,616)	76,606,666	**67,530,050**	39,575,750	**(27,954,300)**	Note 584
	(14,873,600)	**76,903,651**	**62,030,051**	**251,695,740**	**189,665,689**	
Non-Current Assets						
Investment property	-	-	-	226,014,538	**226,014,538**	Note 58
Property, plant and equipment	50,900,004	(17,822,991)	**33,077,013**	1,381,570,769	**1,348,493,756**	Note 58
Intangible assets	(333,286)	17,370	**(315,916)**	329,715	**645,631**	Note 58
Heritage assets	-	-	-	114,325	**114,325**	Note 58
	50,566,718	**(17,805,621)**	**32,761,097**	**1,608,029,347**	**1,575,268,250**	
Total Assets	**35,693,118**	**59,098,030**	**94,791,148**	**1,859,725,087**	**1,764,933,939**	
Liabilities						
Current Liabilities						
Payables from exchange transactions	36	60,844,965	**60,845,001**	98,723,424	**37,878,423**	Note 58
VAT payable	-	-	-	4,695,589	**4,695,589**	Note 58
Consumer deposits	-	-	-	1,855,017	**1,855,017**	Note 58
Employee benefit obligation	-	-	-	920,000	**920,000**	Note 58
Unspent conditional grants and receipts	-	-	-	4,395,576	**4,395,576**	Note 58
Provisions	-	-	-	3,040,639	**3,040,639**	Note 58
	36	**60,844,965**	**60,845,001**	**113,630,245**	**52,785,244**	
Non-Current Liabilities						
Employee benefit obligation	-	-	-	13,338,000	**13,338,000**	Note 58
Provisions	-	-	-	89,516,285	**89,516,285**	Note 58
	-	**-**	**-**	**102,854,285**	**102,854,285**	
Total Liabilities	**36**	**60,844,965**	**60,845,001**	**216,484,530**	**155,639,529**	
Net Assets	**35,693,082**	**(1,746,935)**	**33,946,147**	**1,643,240,557**	**1,609,294,410**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	35,693,082	(1,746,935)	**33,946,147**	1,589,137,622	**1,555,191,475**	Note 58

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Property Rates	(5,769,984)	67,230,808	**61,460,824**	32,568,081	**(28,892,743)**	Note 58
Service Charges	135,018,898	1,841,220	**136,860,118**	124,490,025	**(12,370,093)**	Note 58
Grants	65,311,765	91,417,260	**156,729,025**	156,600,570	**(128,455)**	Note 58
Interest income	2,530	5,322,150	**5,324,680**	2,596,253	**(2,728,427)**	
Other receipts	5,112,503	4,207,084	**9,319,587**	2,363,336	**(6,956,251)**	Note 58
Fines	2,266,503	16,101,616	**18,368,119**	5,650,290	**(12,717,829)**	Note 58
	201,942,215	**186,120,138**	**388,062,353**	**324,268,555**	**(63,793,798)**	
Payments						
Employee costs and Suppliers	(137,840,287)	(141,496,778)	**(279,337,065)**	(222,840,141)	**56,496,924**	Note 58
Finance costs	(4,219,996)	51,995	**(4,168,001)**	(3,781,856)	**386,145**	Note 58
	(142,060,283)	**(141,444,783)**	**(283,505,066)**	**(226,621,997)**	**56,883,069**	
Net cash flows from operating activities	**59,881,932**	**44,675,355**	**104,557,287**	**97,646,558**	**(6,910,729)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(50,900,004)	17,822,991	**(33,077,013)**	(81,857,034)	**(48,780,021)**	Note 58
Net increase/(decrease) in cash and cash equivalents	8,981,928	62,498,346	**71,480,274**	15,789,524	**(55,690,750)**	Note 58
Cash and cash equivalents at the beginning of the year	9,076,616	(76,606,666)	**(67,530,050)**	1,111,153	**68,641,203**	Note 58
Cash and cash equivalents at the end of the year	**18,058,544**	**(14,108,320)**	**3,950,224**	**16,900,677**	**12,950,453**	

The accounting policies on pages 13 to 46 and the notes on pages 47 to 83 form an integral part of the annual financial statements.

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand and all values are rounded to the nearest rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

Significant judgements and estimates

IIn the application of the municipality's accounting policies, which are described above, management is required to make judgement, estimates and assumption that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. The estimates and associated assumptions are based on historical experiences and other factors that are considered to reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions ae reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:
- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or

1.3 Statutory receivables (continued)

- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

1.3 Statutory receivables (continued)

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:
- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognise the receivable; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.Where an investment property is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition and any other costs attributable to bring the asset to a condition necessary for it to be capable of operating in the manner intended by the Municipality. The cost of self-constructed investment property is the cost at date of completion. Transfers aT& made to or from investment property only when there is a change in use.

Where investment property is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset{s} given up.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

The cost of Investment property is the purchase price and other costs attributable to bring the asset to a condition necessary for it to be capable of operating in the manner intended by the Municipality.

Where the classification of an investment property is based on management's Judgement, the following criteria have been applied to distinguish investment properties from owner-occupied property or property held for resale:

Accounting Policies

1.4 Investment property (continued)

All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties.

Land held for a currently undetermined future use;

A building owned (or held by under a finance lease) and leased out under one or more operating leases;

Leased properties that are held to provide a social (community) service or that are necessary for employees to perform their job functions, but which also generates rental revenue are not seen as investment properties. The rental revenue generated is incidental to the purposes for which the property is held;

A building that is vacant but is held to be leased out under one or more operating leases;

Property that is being constructed or developed for future use as investment property.

Where the classification of an investment property is based on management's Judgement, the following criteria have been applied to distinguish investment properties from owner-occupied property or property held for resale:

All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties.

Land held for a currently undetermined future use;

A building owned (or held by under a finance lease) and leased out under one or more operating leases;

Leased properties that are held to provide a social (community) service or that are necessary for employees to perform their job functions, but which also generates rental revenue are not seen as investment properties.
The rental revenue generated is incidental to the purposes for which the property is held;

A building that is vacant but is held to be leased out under one or more operating leases;

Property that is being constructed or developed for future use as investment property.

1.4 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

De-recognition

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the Statement of Financial Performance in the period of the retirement or disposal.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Accounting Policies

1.5 Property, plant and equipment (continued)

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Depreciation recognition

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Depreciation of an asset ceases at the date that the asset is derecognised.

Impairment

Property, plant and equipment is reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance Is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an Impairment is recognised in the Statement of Financial Performance.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Plant and machinery	Straight line	5-10 years
Furniture and fixtures	Straight line	5-10 years
Motor vehicles	Straight line	5-10 years
Infrastructure	Straight line	70 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

1.5 Property, plant and equipment (continued)

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.6 Site restoration and dismantling cost (continued)

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and

(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.7 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are initially recognised at cost on its acquisition date. The cost of an intangible asset is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Trade discounts and rebates are deducted in arriving at the cost.

Amortisation

The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is still subject to an annual impairment test.

Amortisation of an intangible asset with a finite life asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating In the manner intended by the Municipality. Amortisation ceases at the date that the asset is derecognised.

Amortisation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the intangible assets. The amortisation charge for each period is recognised in Statement of Financial Performance, unless it is included in the carrying amount of another asset

Impairment

1.7 Intangible assets (continued)

Intangible assets are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the Statement of Financial Performance.

De-recognition

The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Depreciation method**	**Average useful life**
Computer software and other	Straight line	8 years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality’s operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Accounting Policies

1.8 Heritage assets (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note).

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Accounting Policies

1.8 Heritage assets (continued)

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by a municipality on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:

- cash;
- a residual interest of another municipality; or

1.9 Financial instruments (continued)

- a contractual right to:
  - receive cash or another financial asset from another municipality; or
  - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
  contingent consideration of an acquirer in a transfer of functions between entitles nqt under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies.
- combined instruments that are designated at fair value;

Accounting Policies

1.9 Financial instruments (continued)

- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Short term Investments	Financial asset measured at amortised cost
Bank Balance-Primary Bank Account	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Other receivables	Financial asset measured at amortised cost
Investments in Fixed Deposit	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

The municipality has the following types of residual interests (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipality cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

1.9 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.9 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality , despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

1.9 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

Accounting Policies

1.10 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Foreign currency future cash flows

Future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. The municipality translates the present value using the spot exchange rate at the date of the value in use calculation.

1.11 Impairment of cash-generating assets (continued)

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Employee benefits

Employee benefits are all forms of consideration given by an municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

1.12 Employee benefits (continued)

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from an municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

1.12 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are return the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The municipality account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

1.12 Employee benefits (continued)

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an municipality shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

1.12 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.12 Employee benefits (continued)

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.13 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.13 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and .

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.13 Provisions and contingencies (continued)

Levies

A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:
- those outflows of resources that are within the scope of other Standards, and
- fines or other penalties that are imposed for breaches of the legislation.

Government refers to government, government agencies and similar bodies whether local, national or international.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The municipality does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the municipality being economically compelled to continue to operate in that future period. The preparation of financial statements under the going concern assumption does not imply that the municipality has a present obligation to pay a levy that will be triggered by operating in a future period.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time).

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

1.14 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.15 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

1.16 Revenue from non-exchange transactions (continued)

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.16 Revenue from non-exchange transactions (continued)

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.17 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure as defined in chapter 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 32(1) and 102(1) of the MFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2019 to 30/06/2020.

The budget for the economic entity includes all the entities approved budgets under its control.

1.23 Budget information (continued)

The annual financial statements and the budget are not prepared on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.24 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity’s financial statements to understand the effect of related party transactions on its annual financial statements.

1.25 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2020 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Directive 14: The application of Standards of GRAP by Public Entities that apply IFRS® Standards	01 April 2021	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2020	Unlikely there will be a material impact

3. Investment property

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	226,014,538	-	226,014,538	227,704,881	-	227,704,881

Reconciliation of investment property - 2020

	Opening balance	**Disposals**	**Fair value adjustments**	**Total**
Investment property	227,704,881	(343)	(1,690,000)	226,014,538

Reconciliation of investment property - 2019

	Opening balance	**Fair value adjustments**	**Total**
Investment property	254,164,132	(26,459,251)	227,704,881

Pledged as security

No Investment Property is pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

4. Property, plant and equipment

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	6,755,009	-	6,755,009	6,755,009	-	6,755,009
Infrastructure	1,503,354,573	(390,835,865)	1,112,518,708	1,442,298,526	(336,128,445)	1,106,170,081
Community	213,806,957	(46,376,990)	167,429,967	204,241,740	(40,905,204)	163,336,536
Other property, plant and equipment	53,134,715	3,552,535	56,687,250	57,453,331	(18,697,013)	38,756,318
Work In Progress	38,179,835	-	38,179,835	23,430,866	-	23,430,866
Total	**1,815,231,089**	**(433,660,320)**	**1,381,570,769**	**1,734,179,472**	**(395,730,662)**	**1,338,448,810**

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers	Fair value adjustment	Correction of prior year	Depreciation	Impairment loss	Total
Land	6,755,009	-	-	-	-	-	-	-	6,755,009
Infrastructure	1,106,170,081	58,406,239	-	7,691,995	2,403,612	(36,781,909)	(24,716,658)	(654,652)	1,112,518,708
Community	163,336,536	9,565,217	-	-	-	-	(4,376,259)	(1,095,527)	167,429,967
Other property, plant and equipment	38,756,318	6,838,474	(1,510,642)	872,734	-	22,617,503	(5,491,602)	(5,395,535)	56,687,250
Work in progress	23,430,866	22,440,964	-	(7,691,995)	-	-	-	-	38,179,835
	1,338,448,810	**97,250,894**	**(1,510,642)**	**872,734**	**2,403,612**	**(14,164,406)**	**(34,584,519)**	**(7,145,714)**	**1,381,570,769**

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers received	Correction of prior year	Depreciation	Impairment loss	Total
Land	15,300,365	-	-	-	(8,545,356)	-	-	6,755,009
Infrastructure	695,018,118	35,544,997	60,781	51,768,690	378,542,395	(52,825,632)	(1,939,268)	1,106,170,081
Community	94,529,630	7,391,654	-	-	62,175,266	(760,014)	-	163,336,536
Other property, plant and equipment	27,689,248	11,256,486	(796,225)	-	3,741,934	(2,934,276)	(200,849)	38,756,318
Work in progress	9,789,566	-	-	-	13,641,300	-	-	23,430,866
	842,326,927	**54,193,137**	**(735,444)**	**51,768,690**	**449,555,539**	**(56,519,922)**	**(2,140,117)**	**1,338,448,810**

Pledged as security

No PPE is pledged as security:

Expenditure incurred to repair and maintain property, plant and equipment

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand

5. Intangible assets

	2020			2019		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software other	2,494,140	(2,164,425)	329,715	2,494,140	(2,071,146)	422,994

Reconciliation of intangible assets - 2020

	Opening balance	**Amortisation**	**Total**
Computer software other	422,994	(93,279)	329,715

Reconciliation of intangible assets - 2019

	Opening balance	**Amortisation**	**Total**
Computer software other	539,828	(116,834)	422,994

Pledged as security

No intangible assets are pledged as security:

Notes to the Annual Financial Statements

Figures in Rand

6. Heritage assets

	2020			2019		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Cultural buildings	114,325	-	114,325	114,325	-	114,325

Reconciliation of heritage assets 2020

	Opening balance	**Total**
Cultural buildings	114,325	114,325

Reconciliation of heritage assets 2019

	Opening balance	**Other changes, movements**	**Total**
Cultural buildings	9,913,343	(9,799,018)	114,325

Pledged as security

No heritage assets are pledged as security:

[Insert terms and conditions here where terms and conditions are the same]

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

7. Inventories

Finished goods	4,586,154	1,852,808
Water	534,864	76,523
	5,121,018	**1,929,331**

Inventory pledged as security

No inventory was pledged as security

8. Operating lease asset (accrual)

Current assets	-	1,667,265

Operating lease asset written off in current year.

9. Receivables from exchange transactions

Other trade debtors	-	1,426,302
Consumer debtors - Electricity	27,083,680	12,875,573
Consumer debtors - Water	4,034,359	10,944,448
Consumer debtors - Sewerage	1,837,399	6,167,605
Consumer debtors - Refuse	3,801,202	6,632,401
	36,756,640	**38,046,329**

10. Consumer debtors disclosure

Gross balances		
Consumer debtors - Rates	100,481,311	78,357,051
Consumer debtors - Electricity	60,584,142	47,238,352
Consumer debtors - Water	44,427,738	37,399,416
Consumer debtors - Sewerage	24,617,985	21,683,464
Consumer debtors - Refuse	25,946,214	24,121,770
Consumer debtors - Other	177,824,814	161,096,509
	433,882,204	**369,896,562**
Less: Allowance for impairment		
Consumer debtors - Rates	(92,278,294)	(54,908,790)
Consumer debtors - Electricity	(33,500,462)	(34,362,779)
Consumer debtors - Water	(40,393,379)	(26,454,968)
Consumer debtors - Sewerage	(22,780,586)	(15,515,859)
Consumer debtors - Refuse	(22,145,012)	(17,489,369)
Consumer debtors - Other	(76,655,532)	(74,684,666)
	(287,753,265)	**(223,416,431)**
Net balance		
Consumer debtors - Rates	8,203,017	23,448,261
Consumer debtors - Electricity	27,083,680	12,875,573
Consumer debtors - Water	4,034,359	10,944,448
Consumer debtors - Sewerage	1,837,399	6,167,605
Consumer debtors - Refuse	3,801,202	6,632,401
Consumer debtors - Other	101,169,282	86,411,843
	146,128,939	**146,480,131**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

10. Consumer debtors disclosure (continued)

Rates		
Current (0 -30 days)	3,392,326	3,180,015
31 - 60 days	2,715,818	2,013,146
61 - 90 days	2,513,486	1,846,014
91 - 120 days	91,859,682	72,744,178
Allowance for Impairment	(92,278,294)	(54,908,790)
	8,203,018	**24,874,563**
Electricity		
Current (0 -30 days)	3,511,884	4,858,934
31 - 60 days	2,680,287	3,413,338
61 - 90 days	2,262,269	1,780,761
91 - 120 days	52,137,268	37,192,886
Allowance for Impairment	(33,500,463)	(34,362,779)
	27,091,245	**12,883,140**
Water		
Current (0 -30 days)	2,024,578	1,434,703
31 - 60 days	1,525,750	1,189,707
61 - 90 days	1,412,064	992,815
91 - 120 days	39,465,346	33,782,191
Allowance for Impairment	(40,393,379)	(26,454,968)
	4,034,359	**10,944,448**
Sewerage		
Current (0 -30 days)	1,181,031	975,240
31 - 60 days	1,001,505	682,159
61 - 90 days	928,806	584,228
91 - 120 days	21,506,643	19,441,837
Allowance for Impairment	(22,780,586)	(15,515,859)
	1,837,399	**6,167,605**
Refuse		
Current (0 -30 days)	951,324	796,505
31 - 60 days	836,515	668,815
61 - 90 days	779,781	603,249
91 - 120 days	23,378,594	22,053,200
Allowance for Impairment	(22,145,012)	(17,489,369)
	3,801,202	**6,632,400**
Other		
Current (0 -30 days)	766,822	115,237
31 - 60 days	48,707	110,180
61 - 90 days	48,541	72,304
91 - 120 days	176,960,745	160,798,788
Allowance for Impairment	(76,655,531)	(74,684,666)
	101,169,284	**86,411,843**
Reconciliation of allowance for impairment		
Balance at beginning of the year	111,093,290	172,339,468
Debt impairment written off against allowance	(61,246,178)	(61,246,178)
	49,847,112	**111,093,290**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

11. Receivables from non-exchange transactions

Accrued Income	6,767,098	6,669,094
Property Rates	8,203,017	23,448,261
Consumer debtors - Other (Specified)	101,169,282	86,411,843
	116,139,397	**116,529,198**

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	20,317,375	285,419
Short-term deposits	19,258,375	40,394,981
	39,575,750	**40,680,400**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	**30 June 2019**	**30 June 2018**	**30 June 2020**	**30 June 2019**	**30 June 2018**
FNB MainAccount-62028195510	4,409,965	3,083,755	511,549	20,315,875	285,421	828,198
FNB Call Account-62178430212	3,000,000	2,276,258	1,661,765	3,005,000	2,276,258	1,679,975
FNB Call Account-74483123713	1	-	1,531,889	1	-	10,288,782
FNB Call Account-62720717761	1	15,578,051	10,424,319	-	15,578,051	9,915,556
FNB Call Account-74720711205	841,440	-	499,742	841,440	-	1,949,485
FNB Call Account-7472709953	3,136,215	2,046,075	1,304,986	3,136,215	2,046,075	-
FNB Call Account-74720711702	1,653,457	-	6,695,883	1,653,457	-	6,417,724
FNB Call Account-74720708666	382,475	-	997,175	382,475	-	967,000
FNB Call Account-74720719957	5,000	2,649,854	911,843	5,000	2,649,854	801,578
FNB Call Account-74763982095	10,154,631	11,700,490	13,641,780	10,154,631	11,700,490	13,641,780
FNB Call Account-62774591385	5,000	3,442,864	-	5,000	3,442,864	66,758
FNB Call Account-62774589801	6,324	2,203,010	-	12,824	2,203,010	-
FNB Call Account-62076419508	6,981	498,377	-	6,981	498,377	66,759
FNB Call Account-62855646926	39,862	-	-	39,862	-	-
FNB Call Account-62783746070	15,488	-	-	15,488	-	-
Total	**23,656,840**	**43,478,734**	**38,180,931**	**39,574,249**	**40,680,400**	**46,623,595**

13. Payables from exchange transactions

Trade payables	57,221,944	58,919,159
Debtors received in advance	11,733,319	7,694,156
Retentions	16,033,845	13,230,421
Unallocated receipts	278,859	-
Leave pay accrual	10,186,298	6,992,489
Employee accruals	3,269,165	2,353,205
	98,723,430	**89,189,430**

14. VAT payable

Nett VAT payable	4,695,589	8,032,790
VAT payable	(61,454,634)	(45,285,952)
VAT receivable	56,759,045	37,253,162
	4,695,589	**8,032,790**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

15. Consumer deposits

Electricity	1,744,993	1,722,446
Water	72,797	11,612
Housing rental	37,227	94,292
	1,855,017	**1,828,350**

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	(2,221,402)	-
Water Services Infrastructure Grant	6,616,616	9,978,585
Integrated National Electrification Programme Grant	362	-
	4,395,576	**9,978,585**

Municipal infrastructure grant

Additions during the year	29,235,000	-
Income recognition during the year	(31,456,402)	-
	(2,221,402)	**-**

Water services infrastructure grant

Balance at the beginning of the year	9,978,585	1,823,952
Additions during the year	49,549,600	9,978,585
Income recognition during the year	(53,361,969)	(1,823,952)
	6,166,216	**9,978,585**

Integrated National Electrification Programme Grant

Additions during the year	10,000,000	-
Income recognition during the year	(9,999,638)	-
	362	**-**

DC31 Nkangala Infrastructure Grant

Additions during the year	30,457,266	-
Income recognition during the year	(30,457,266)	-
	-	**-**

See note for reconciliation of grants from National/Provincial Government.

17. Employee benefit obligations

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Post retirement medical aid plan

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

17. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

	2020	2019
Carrying value		
Present value of the defined benefit obligation	8,861,000	6,197,000
Non-current assets	8,650,000	-
Current assets	211,000	-
	8,861,000	**-**

Changes in the present value of the defined benefit obligation are as follows:

	2020	2019
Opening balance	6,197,000	5,713,000
Current service costs	328,000	367,000
Interest cost	650,000	585,000
Benefits paid	(235,000)	(191,000)
Actuarial (gains) losses	1,921,000	(277,000)
	8,861,000	**6,197,000**

Net expense recognised in the statement of financial performance

	2020	2019
Current service cost	328,000	367,000
Past service cost	-	(191,000)
Interest cost	650,000	585,000
Actuarial (gains) losses	1,921,000	(277,000)
	2,899,000	**484,000**

Key assumptions used

Assumptions used at the reporting date:

	2020	2019
Discount rates used	10.93 %	10.69 %
Expected rate of return on assets	6.91 %	7.98 %
Expected rate of return on reimbursement rights	3.76 %	2.51 %
Actual return on reimbursement rights	5.84 %	6.98 %

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	**One percentage point decrease**
Employee’s Accrued Liability	8,861,000	6,197,000
Service Cost	328,000	367,000
Interest Cost	650,000	585,000

Amounts for the current and previous four years are as follows:

	2020 30 June 2020 R	**2019 30 June 2019 R**	**2018 30 June 2018 R**	**2017 30 June 2017 R**	**2016 30 June 2016 R**
Defined benefit obligation	8,861,000	6,197,000	5,713,000	8,956,000	10,007,000

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

17. Employee benefit obligations (continued)

Employee benefit obligations

Long Service Award

Long Service Award Arrangement

1.After 5 year of service- 5 working days.

2.After 10 years ofservice-10 working days.

3.After 15 years of service- 15 working days.

4.After 20 years of service- 20 working days.

5.After 25 years of service- 30 working days.

6.After 30 years of service- 30 working days.

7.After 35 years of service- 30 working days.

8.After 40 years of service- 30 working days.

9.After 45 years of service- 30 working days.

Changes in the present value of the defined benefit obligation are as follows:

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Opening balance	5,149,000	3,914,000
Current Service Cost	386,000	311,000
Interest Cost	413,000	341,000
Benefits paid	(405,000)	(324,000)
Actuarial (Gain)/Losses	(146,000)	907,000
	5,397,000	**5,149,000**

Movement in present value of defined benefit plan	-	-
Opening balance	2,785,340	1,550,340
Current Service Cost	386,000	311,000
Interest Cost	413,000	341,000
Benefits paid	(405,000)	(324,000)
	(146,000)	907,000
	3,033,340	**2,785,340**

Amount recognised in statement of financial performance	-	-
Current Service Cost	386,000	311,000
Interest Cost	413,000	(324,000)
Benefits paid	(405,000)	341,000
Actuarial (Gain)/Losses	146,000	907,000
	540,000	**1,235,000**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

17. Employee benefit obligations (continued)

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The history of experienced adjustments	**2020**	**2019**	**2018**	**2017**	**2016**
Present value of defined benefit plan	540,000	1,235,000	1,550,000	1,600,340	1,516,340
Subtotal	**540,000**	**1 235 000**	**1 550 000**	**1 600 340**	**1 516 340**

Reconciliation of employee benefit obligation

	Long service award	Post employment benefit	Total
Opening balance	5,149,000	6,197,000	11,346,000
Current Service Cost	386,000	328,000	714,000
Interest Cost	413,000	650,000	1,063,000
Actuarial (gains)/losses	(146,000)	1,921,000	1,775,000
Benefits paid	(405,000)	(235,000)	(640,000)
Current portion of provision	-	-	
	5,397,000	**8,861,000**	**14,258,000**

18. Provisions

Reconciliation of provisions - 2020

	Opening Balance	**Additions**	**Total**
Landfill site provision	89,021,618	3,535,306	92,556,924

Reconciliation of provisions - 2019

	Opening Balance	**Movement during the year**	**Total**
Landfill site provision	48,760,041	40,261,577	89,021,618

	2020	2019
Non-current liabilities	89,516,285	89,021,618
Current portion of landfill site rehabillitation	3,040,639	-
	92,556,924	**89,021,618**

19. Service charges

	2020	2019
Sale of electricity	85,282,638	65,751,646
Sale of water	16,716,325	19,648,999
Solid waste	9,633,551	11,388,528
Sewerage and sanitation charges	12,127,539	13,821,239
	123,760,053	**110,610,412**

20. Rental of facilities and equipment

	2020	2019
Facilities and equipment		
Rental Revenue - Investment Property	325,068	243,250

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

21. Licences and permits (exchange)

Trading	-	325

22. Other revenue

Sundry revenue	2,832,976	2,140,628

23. Investment revenue

Interest revenue		
Bank	2,434,207	3,781,378

24. Property rates

Rates received

Property rates	50,957,020	49,113,321

Valuations

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2019. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2019.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

25. Government grants and subsidies

Operating grants		
Equitable share	63,331,250	58,495,000
Expanded Public Works	1,182,000	1,240,120
Financial Management Grant	2,435,000	1,970,000
LGSETA Grant	179,320	89,557
Municipal Disaster Recovery Grant	238,000	-
Allocations in Kind	-	12,830,574
	67,365,570	**74,625,251**
Capital grants		
Integrated National Electrification Programme Grant	9,999,638	9,014,000
Municipal Infrastructure Grant	31,472,713	20,090,561
Water Services Infrastructure Grant	53,361,969	29,789,247
DC31 Nkangala Infrastructure Grant	30,457,266	-
	125,291,586	**58,893,808**
	192,657,156	**133,519,059**

Conditional and Unconditional

Included in above are the following transfers and subsidies received:

Conditional grants received	129,325,906	62,193,485
Unconditional grants received	63,331,250	71,325,574
	192,657,156	**133,519,059**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastructure Grant

Current-year receipts	29,235,000	19,946,000
Conditions met - transferred to revenue	(31,456,402)	(19,946,000)
	(2,221,402)	**-**

Conditions still to be met - remain liabilities (see note 16).

Expanded Public Works Programme Integrated Grant

Current-year receipts	1,182,000	1,240,120
Conditions met - transferred to revenue	(1,182,000)	(1,240,120)
	-	-

Conditions still to be met - remain liabilities (see note 16).

Local Government Financial Management Grant

Current-year receipts	2,435,000	1,970,000
Conditions met - transferred to revenue	(2,435,000)	(1,970,000)
	-	-

Conditions still to be met - remain liabilities (see note 16).

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

25. Government grants and subsidies (continued)

Water services infrastructure grant

Balance unspent at beginning of year	9,978,585	-
Current-year receipts	50,000,000	39,767,832
Conditions met - transferred to revenue	(53,361,969)	(29,789,247)
	6,616,616	**9,978,585**

Conditions still to be met - remain liabilities (see note 16).

Municipal Disaster Grant

Current-year receipts	238,000	-
Conditions met - transferred to revenue	(238,000)	-
	-	**-**

Conditions still to be met - remain liabilities (see note 16).

Integrated National Electrification Programme Grant

Current-year receipts	10,000,000	-
Conditions met - transferred to revenue	(9,999,638)	-
	362	**-**

Conditions still to be met - remain liabilities (see note 16).

26. Public contributions and donations

27. Fines, Penalties and Forfeits

Illegal Connections Fines	44,572	15,805
Overdue Books Fines	860,150	-
Municipal Traffic Fines	44,722,175	86,991,350
	45,626,897	**87,007,155**

28. Operational revenue

Administrative Handling Fees	965,736	1,680
Advertisements	42,375	7,939
Application Fees for Land Usage	78,824	41,725
Building Plan Approval	114,127	113,941
Camping Fees	2,637	1,962
Cemetery and Burial	33,588	46,784
Incidental Cash Surpluses	1,063,541	917,445
Clearance Certificates	36,032	58,353
Drainage Fees	4,569	9,307
Membership	1,536	5,334
Photocopies and Faxes	1,232	19,698
Valuation Services	1,097	2,639
Sale of Property	284,326	647,697
Merchandising Jobbing and Contracts	1,004	8,771
Skills Development Levy Refund	-	76,221
Tender Documents	202,352	181,132
	2,832,976	**2,140,628**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

29. Revenue

Service charges	123,760,053	110,610,412
Rental of facilities and equipment	325,068	243,250
Licences and permits	-	325
Other income	2,832,976	2,140,628
Interest received - investment	2,434,207	3,781,378
Property rates	50,957,020	49,113,321
Government grants & subsidies	192,657,156	133,519,059
Fines, Penalties and Forfeits	45,626,897	87,007,155
	418,593,377	**386,415,528**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	123,760,053	110,610,412
Rental of facilities and equipment	325,068	243,250
Licences and permits	-	325
Other income	2,832,976	2,140,628
Interest received - investment	2,434,207	3,781,378
	129,352,304	**116,775,993**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	50,957,020	49,113,321
Transfer revenue		
Government grants & subsidies	192,657,156	133,519,059
Fines, Penalties and Forfeits	45,626,897	87,007,155
	289,241,073	**269,639,535**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

30. Employee related costs

Basic	60,208,989	55,422,126
Bonus	4,810,029	6,557,479
Medical aid - company contributions	4,160,205	3,848,483
Unemployment Income Fund	582,048	560,966
SDL	759,620	782,982
Leave pay provision charge	3,679,200	-
Travel, motor car, accommodation, subsistence and other allowances	8,425,044	11,271,832
Overtime payments	6,988,657	4,637,044
Long-service awards	(254,000)	678,000
Acting allowances	1,270,586	-
Housing benefits and allowances	544,554	4,075,490
Pension fund contributions	11,803,000	9,799,535
Defined benefit expense	328,000	1,137,097
Bargaining Council	38,513	43,221
	103,344,445	**98,814,255**

Remuneration of municipal manager - E.K Tshabalala

Annual Remuneration	158,135	692,423
Car Allowance	46,196	190,559
Telephone allowance	3,782	-
Contributions to UIF, Medical and Pension Funds	36,470	154,118
Travel claims	186	-
SALGBC	28	105
Leave payout	44,356	-
SDL	2,311	-
	291,464	**1,037,205**

Mrs E.K. Tshabalala serves as Municipal Manager since 01 October 2015.

Remuneration of chief finance officer - Mr BJ Thoka

Annual Remuneration	542,037	316,191
Car Allowance	198,000	115,500
Telephone allowance	12,600	-
Contributions to UIF, Medical and Pension Funds	71,269	41,573
SALGBC	111	61
Travel claims	8,213	-
Acting Allowance	2,088	-
SDL	6,857	-
	841,175	**473,325**

Mr. B.J. Thoka serves as Chief Financial Officer since 01 December 2018.

Manager Corporate Services - Mrs T.J Shoba

Annual Remuneration	545,015	317,928
Car Allowance	166,403	97,068
Acting allowance	44,212	-
Contributions to UIF, Medical and Pension Funds	99,887	58,268
SALGBC	-	61
Telephone allowance	12,600	-
Bargaining council	111	-
SDL	6,941	-
	875,169	**473,325**

Figures in Rand	2020	2019

30. Employee related costs (continued)

Mrs. T.J Shoba serves as Corporate Services Manager from 01 December 2018.

Acting Manager Infrastructure,Planning and Social Development- Mr W.M Mtshweni

Annual Remuneration	437,933	-
Car Allowance	144,444	-
Bonus	36,068	-
Contributions to UIF, Medical and Pension Funds	120,344	-
Telephone allowance	9,600	-
Acting allowance	65,166	-
SALGBC	111	-
	813,666	**-**

Manager Infrastructure, Planning and Social Development-Mr M.L Mamaleka

Annual Remuneration	601,483	600,408
Car Allowance	125,415	125,420
Travel allowance	5,798	17,322
Contributions to UIF, Medical and Pension Funds	76,095	68,161
SALGBC	111	105
Acting allowance	88,424	-
Telephone allowance	12,600	-
SDL	8,098	-
	918,024	**811,416**

Mr M.L. Mamaleka serves as Manager Infrastructure, Planning and Social Development since 02 January 2018.

Manager Infrastructure,Planning and Social Development- Mr M.J Sibanyoni

Annual Remuneration	529,352	-
Car Allowance	170,833	-
Bonus	43,589	-
Contributions to UIF, Medical and Pension Funds	168,617	-
Backpay	3,831	-
Acting allowance	6,236	-
Housing allowance	10,893	-
Telephone allowance	9,600	-
SALGBC	111	-
	943,062	**-**

31. Remuneration of councillors

Mayoral Committee Members	35,273	-
Speaker	664,282	-
Councillors	6,471,780	6,462,508
	7,171,335	**6,462,508**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

31. Remuneration of councillors (continued)

Remuneration of Councillors

Executive Mayor	Annual Remuneration	Telephone Allowance	Vehicle Allowance	Housing Allowance	Backpay	Company Contribution
T.D Ngwenya	497,932	44,400	181,467	35,273	71,497	74,690
Subtotal	497,932	44,400	181,467	35,273	71,497	74,690
	497,932	**44,400**	**181,467**	**35,273**	**71,497**	**74,690**

Speaker	Annual Remuneration	Telephone Allowance	Vehicle Allowance	Housing Allowance	Backpay	Company Contribution
N.A Mashele	398,040	44,400	147,632	-	56,552	86,465
Subtotal	398,040	44,400	147,632	-	56,552	86,465
	398,040	**44,400**	**147,632**	**-**	**56,552**	**86,465**

Executive Council	Annual Remuneration	Telephone Allowance	Vehicle Allowance	Housing Allowance	Backpay	Company Contribution
S.S Mthimunye	393,163	44,400	144,498	-	49,011	58,974
M. Nkambule	393,163	44,400	144,498	-	49,011	58,974
T. Scheefers	369,824	44,400	141,025	-	51,657	83,142
Subtotal	1,156,150	133,200	430,021	-	149,679	201,090
	1,156,150	**133,200**	**430,021**	**-**	**149,679**	**201,090**

Councillors	Annual Remuneration	Telephone Allowance	Vehicle Allowance	Housing Allowance	Backpay	Company Contribution
M.P Ntuli	225,484	44,400	61,276	-	29,035	33,823
N.T Masha	225,484	44,400	61,276	-	29,035	33,823
T.C Ngomane	225,484	44,400	61,276	-	29,035	33,823
T.J Duma	225,484	44,400	61,276	-	29,035	33,823
A.A Botha	166,762	44,400	58,029	-	22,625	25,014
S.I Skhosana	166,762	44,400	58,029	-	22,625	25,014
R. Ndlovu	139,410	44,400	56,868	-	21,819	54,334
S.S Tshabalala	166,762	44,400	58,029	-	22,625	25,014
D.M Scheefers	166,762	44,400	58,029	-	22,625	25,014
ES Radebe	153,082	44,400	53,321	-	30,682	22,962
Subtotal	901,938	177,600	245,104	-	116,140	135,291
	1,861,476	**444,000**	**587,409**	**-**	**259,141**	**312,644**

32. Depreciation and amortisation

	2020	2019
Property, plant and equipment	34,584,519	56,403,088
Intangible assets	-	116,834
	34,584,519	**56,519,922**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

33. Impairment of assets

Impairments		
Property, plant and equipment	7,145,714	1,712,168
Trade and other receivables	75,539,989	93,151,913
	82,685,703	**94,864,081**
Reversal of impairments		
Trade and other receivables	(840,143)	(61,246,178)
Total impairment losses (recognised) reversed	**81,845,560**	**33,617,903**

34. Repairs and Maintenance

.

Repairs and Maintenance	6,835,201	5,216,567

35. Finance costs

Interest paid	11,210,917	4,906,927

36. Bulk purchases

Electricity	57,937,332	47,489,624

Electricity losses

	Number 2020		
Units purchased	-	63,906,729	-
Units sold	-	(62,389,032)	-
Total loss	**-**	**1,517,697**	**-**

37. Contracted services

Outsourced Services		
Security Services	5,863,959	6,101,011
Transport Services	8,680	-

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

38. Operational expenditure

Advertising	220,375	493,089
Auditors remuneration	4,477,912	4,586,072
Bank charges	423,642	287,105
Consulting and professional fees	4,004,453	8,189,816
Materials and stock	2,889,353	48,002
Entertainment	411,353	105,731
Insurance	1,588,180	608,109
Basic Services	-	9,867,377
Municipal operational cost	5,340,470	2,750,650
Refuse	-	50,943
Fuel and oil	2,028,345	2,878,445
Postage and courier	536,046	553,359
Printing and stationery	732,860	778,697
Protective clothing	502,438	568,596
Staff welfare	13,970	-
Subscriptions and membership fees	1,028,159	1,347,273
Telephone and fax	836,284	733,167
Community development and training	385	260,023
Training	-	213,656
Travel - local	671,233	452,340
Other general expenses	4,617,716	4,574,123
Rental expense	1,259,216	648,829
Rehabilitation of Landfill Sites	6,886,082	2,550,969
Licence fees	450,122	282,810
Chemicals	305,525	67,413
	39,224,119	**42,896,594**

39. Auditors' remuneration

Fees	4,477,912	4,586,072

40. Cash generated from operations

Surplus	39,526,802	31,379,520
Adjustments for:		
Depreciation and amortisation	34,584,519	56,519,922
Gain on sale of assets and liabilities	27,575,508	22,064,705
Fair value adjustments	3,611,000	30,315,992
Impairment deficit	81,845,560	33,617,903
Movements in operating lease assets and accruals	1,667,265	-
Movements in retirement benefit assets and liabilities	2,912,000	-
Movements in provisions	3,535,306	(189,902)
Other non-cash items	2,524,399	11,939,766
Changes in working capital:		
Inventories	(3,191,687)	448,179
Receivables from exchange transactions	(73,410,157)	(33,740,091)
Other receivables from non-exchange transactions	389,801	(4,851,118)
Payables from exchange transactions	9,533,994	1,447,487
VAT	(3,337,201)	1,238,554
Unspent conditional grants and receipts	(5,583,009)	8,154,633
Consumer deposits	26,667	-
	122,210,767	**158,345,550**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

41. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	4,464,362	15,129,421
Total capital commitments		
Already contracted for but not provided for	4,464,362	15,129,421

Authorised operational expenditure

Already contracted for but not provided for		
• Operational commitments	15,820,331	3,207,270
Total operational commitments		
Already contracted for but not provided for	15,820,331	3,207,270

Total commitments

Total commitments		
Authorised capital expenditure	4,464,362	15,129,421
Authorised operational expenditure	15,820,331	3,207,270
	20,284,693	**18,336,691**

This committed expenditure relates to capital projects which are implemented by the municipality as well as operation contracts such as security services.

Notes to the Annual Financial Statements

42. Contingencies- 30 June 2020

Contingencies - 30 June 2020

CONTINGENT ASSETS

1. ELM vs Magoveni Business Trust - The municipality appointed Magoveni Holdings with a letter dated the 06th of May 2013 and entered into a service level agreement on the 15th May 2013 for a period of three years, wherein Magoveni was to assist the municipality with the provision of credit control and debt collection support. **R6 562 622,84**.

2. ELM vsSAMWU Provident Fund - SAMWU Provident Fund was paid contributions that were supposed to have been paid over to MEPFof **R 3 151 932.46**.The matter is written off as per Council Resolution no: 47/05/2020 and the contigent asset is **R 0,00**

3.**ELM vs Shatadl Auctioneers** - The municipality entered into a Service Level Agreement with Shatadi Auctioneers on the 04th July 2013, wherein Shatadi was appointed to dispose the redundant assets on behalf of the municipality. In terms of dause four (4) of the agreement Shatadi was supposed to pay the proceeds of the sale to the municipality within seven (7) working days of receiving the money, but to date they have not done so. **R 656 296,00**

CONTINGENT LIABILITIES

1.Magoveni Business Trust vs ELM - The municipality appointed Magoveni Holdings with a letter dated the 06th of May 2013 and entered Into a service level agreement on the 15th May 2013 for a period of three years, wherein Magovenl was to assist the municipality with the provisiqn of credit control and debt collection support. **R 3 114 235,48**.

2. Vivien De klerk vs ELM - The municipality has been served with a Civil Law Suit Summons, E from Messer Vivien De Klerk and De Klerk & Marais Incorporated. The matter relates to allegations of defamatory by the municipality during the pleadings filed by the municipality in the Road Freight Matter. **R 4 250 000,00**.

3. P.A CLARKE vs ELM - Civil dispute arising from an alleged pothole damages by the plaintiff. . Legal Department wrote to the attorney of the plaintiff requesting further information on the matter however, the attorneys did not response. Due to service of summons an attorney was appointed to tender notice of intention to defend the matter**. R 10 475,47.**

4. M. Mabuza vs ELM - The municipality official was deemed following charges of fraud , dismsal was confirmed by Bargaining Council.

5. R. VAN ROOYEN vs ELM - The municipality has been served with a Civil dispute arising from an alleged pothole damages by the plaintiff R.Van Rooyen.The matter is dealt with internally and the estimated liability is **R 48 020,00.**

6. LINDI BOTHA vs ELM - The municipality has been served with a Civil dispute arising from an alleged pothole damages by the plaintiff Lindi Botha.The matter is dealt with internally and the estimated liability is **R 15 636,73.**

7. **AFRI-INFRA GROUP vs ELM** - A contractural dispute arising from the municipality and Afri-Infra Group as a result of a contract entered in 2017 the estimated liability is **R 142 106,81.**

42. Contingencies- 30 June 2020 (continued)

Contingencies - 30 June 2019

CONTINGENT ASSETS

1. ELM/ Magoveni Business Trust - The municipality appointed Magoveni Holdings with a letter dated the 06th of May 2013 and entered into a service level agreement on the 15th May 2013 for a period of three years, wherein Magoveni was to assist the municipality with the provision of credit control and debt collection support. R6 562 622,84.

2. ELM/ SAMWU Provident Fund - SAMWU Provident Fund was paid contributions that were supposed to have been paid over to MEPF. R 3 151 932.46.

3.ELM/ Shatadl Auctioneers - The municipality entered into a Service Level Agreement with Shatadi Auctioneers on the 04th July 2013, wherein Shatadi was appointed to dispose the redundant assets on behalf of the municipality. In terms of dause four (4) of the agreement Shatadi was supposed to pay the proceeds of the sale to the municipality within seven (7) working days of receiving the money, but to date they have not done so. R 656 296-00

CONTINGENT LIABILITIES

1.ELM/ Magoveni Business Trust - The municipality appointed Magoveni Holdings with a letter dated the 06th of May 2013 and entered Into a service level agreement on the 15th May 2013 for a period of three years, wherein Magovenl was to assist the municipality with the provisiqn of credit control and debt collection support. R 3 114 235,48.

2. Vivien De klerk/ ELM - The municipality has been served with a Civil Law Suit Summons, E from Messer Vivien De Klerk and De Klerk & Marais Incorporated. The matter relates to allegations of defamatory by the municipality during the pleadings filed by the municipality in the Road Freight Matter. R 4 250 000-00.

3. P.A CLARKE/ELM - Civil dispute arising from an alleged pothole damages by the plaintiff. . Legal Department wrote to the attorney of the plaintiff requesting further information on the matter however, the attorneys did not response. Due to service of summons an attorney was appointed to tender notice of intention to defend the matter. R 10 475.47.

4. M. Mabuza/ ELM - The municipality official was deemed following charges of fraud , dismsal was confirmed by Bargaining Council.

43. Related parties

Relationships

E.K Tshabalala: Municipal Manager	Refer to accounting officer's report note (resignation date 30 September 2019) .
B.J Thoka	Chief Financial Officer (01 December 2018 to Date)
T.J Shoba	Manager: Corporate Services (01 December 2018 to Date)
M.L Mamaleka	Manager: Infrastructure, Planning and Social Development
W.M Mtshweni	Acting Infrastructure, Planning and Social Development (01 January 2020 to 31 July 2020)
M. Sibanyoni	Acting Manager: Corporate Services (01 October 2019 to 31 December 2020)
T.D Ngwenya	Executive Mayor
N.T Masha	Chief Whipp
N.A Mashele	Speaker
S.S Mthimunye	MMC: Infrastructure. Planning and Social Development
T.E Schaefers	MMC: Corporate Services
M. Nkambula	MMC: Finance
T.C Ngomane	Councillor
A.A Botha	Councillor
S.S Tshabalala	Councillor
D.M Scheefers	Councillor
S.I Skhosana	Councillor
R. Ndlovu	Councillor
S.J Duma	Councillor
M.PNtuli	Councillor
Audit and Performance Committee Members	.
F. Mudau	Chairperson
L. Langalebalela	Member
M. Mathabathe	Member
T. Gafane	Member
S. Masite	Member
Risk Management, Anti Fraud, Anti Corruption Committee	.
T. Boltman	Chairperson: Risk Management Committee

Related party balances

	2020	2019
Donations In Kind		
Nkangala District Municipality	-	12,830,574

Related party transactions

	2020	2019
Donations In Kind		
Nkangala District Municipality	-	12,830,574

Remuneration of management

44. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

44. Prior-year adjustments (continued)

2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Investment Property		166,830,253	59,967,285	-	226,797,538
Property plant and equipment cost		1,689,874,731	86,846,025	-	1,776,720,756
Property plant and equipment accumulated depreciation and impairment		(811,183,787)	409,288,737	-	(401,895,050)
Buildings PPE Accumulated Depreciation and Impairment		(108,195,729)	-	108,195,729	-
Community Assets-Cost		-	-	198,456,462	198,456,462
Community Assets-Accumulated Depreciation and Impairment		-	-	(108,195,729)	(108,195,729)
Inventory		1,902,326	27,005	-	1,929,331
Receivables from exchange transactions		57,821,156	(18,304,783)	-	39,516,373
Receivables from non-exchange transactions (rates)		52,023,947	63,003,166	-	115,027,113
Value Added Tax Payable		-	(8,032,790)	-	(8,032,790)
Cash and Cash Equivalents		43,478,734	(1,756,508)	-	41,722,226
Payables from Exchange Transactions		(163,100,457)	4,749,636	-	(158,350,821)
Consumer deposits		(1,877,723)	49,373	-	(1,828,350)
Provisions landfill sites		(27,834,311)	(61,187,307)	-	(89,021,618)
		899,739,140	**534,649,839**	**198,456,462**	**1,632,845,441**

Statement of finanical performance

2019

	Note	As previously reported	Correction of error	Restated
Other revenue		1,280,700	859,928	2,140,628
Government grants and subsidies		120,543,924	144,561	120,688,485
Employee related costs		(96,391,028)	33,235	(96,357,793)
Bulk purchases		(47,489,624)	(2,220,772)	(49,710,396)
Repairs and Maintenance		(5,329,780)	113,213	(5,216,567)
Contracted Services		(6,313,384)	212,373	(6,101,011)
General Expenditure		(44,035,802)	1,139,208	(42,896,594)
Surplus for the year		**(77,734,994)**	**281,746**	**(77,453,248)**

Cash flow statement

Errors

Reclassifications

The following reclassifications adjustment occurred:

Reclassification 1

Other income of R 2 618 583 has been reclassifed to Operational revenue.

This is inline with GRAP 1 Presentation and Disclosure.

Reclassification 2

General expenses of R 46 826 146 has been reclassified to Operational expenditure]

This is inline with GRAP 1 Presentation and Disclosure.

45. Prior period errors

VAT was not accounted for correctly for the trasactions below resultting in the following VAT adjustments : (JE000004251).

Error 1 - Vat adjustment Assets for Trading Service and Customer Service Debtors: Electricity for R(2,925).

Error 2 - Vat adjustment Operational Revenue: Incidental Cash Surpluses for R (91,172.10).

Error 3 - Vat adjustment Operational Revenue: Incidental Cash Surpluses for R (684,599.19).

Error 4 - Vat adjustment Operational Revenue: Incidental Cash Surpluses for R (6,160).

Error 5 - Vat adjustment VAT Receivable:Input VAT of R 784,856.29.

VAT was not accounted for correctly for the trasactions below resultting in the following VAT adjustments : (JE000004250).

Error 1 - Vat adjustement Property Plant and Equipment Cost Electrical Infrastructure LV Networks Acquisitions of (R 63,618.87).

Error 2 - Vat adjustment Assets for Trading Service and Customer Service Debtors: Electricity for R (4,641.31).

Error 3 - Vat adjustment Operational Cost External Computer Service Data Lines (R 7,864.58)

Error 4 - Vat adjustment Operational Cost: Communication: Telephone Fax Telegraph and Telex (R 16,582.45).

Error 5 - Contracted Services: Outsourced Services: Transport Services (R 587,72).

Error 6 - Operational Cost: Advertising Publicity and Marketing: Staff Recruitment (R 4,994.88).

Error 7 - Vat adjustment Operational Revenue: Incidental Cash Surpluses for R (939.86).

Error 8 - Vat adjustment Operational Cost: External Audit Fees for (R224,338.41).

Error 9 - Operational Cost: Bank Charges Facility and Card Fees: Bank Accounts (R 4,555.61).

Error 10 - Contracted Services: Outsourced Services: Business and Advisory: Business and Financial (R 2,721.60).

Error 11 - Vat adjustment Expenditure: Inventory Consumed: Consumables: Standard Rated (R 18,608.51).

Error 12 - Vat adjustment Expenditure: Inventory Consumed: Consumables: Standard Rated (R 56, 676.86).

Error 13 - Vat adjustment Expenditure: Operational Cost: Municipal Services (R 14,220.16).

Error 14 - Vat adjustment Expenditure: Inventory Consumed: Consumables: Standard Rated (R 25,890.90).

Error 15 - Vat adjustment Operational Cost: Uniform and Protective Clothing (R 4,410.00).

Error 16 - Vat adjustment Contracted Services: Outsourced Services: Transport Services (R 1,738.83).

Error 17 - Vat adjustment Property Plant and Equipment: Revaluation: Computer Equipment (R 4,018.39).

Error 18 - Vat adjustment Contracted Services: Outsourced Services: Business and Advisory: Business and Financial Management (R 7,584.09).

Error 19 - Vat adjustment Operational Cost: Travel and Subsistence: Domestic: Accommodation (R 167.61).

Error 20 - Vat adjustment Contracted Services: Consultants and Professional Services: Business and Advisory (R 2,678.42).

Figures in Rand	2020	2019

45. Prior period errors (continued)

Error 21 - Vat adjustment Revenue: Transfers and Subsidies: Operational: Monetary Allocations (R 3,418.99).

Error 22 - Vat adjustment Contracted Services: Consultants and Professional Services: Legal Cost: Legal Advice and Litigation (R 11,548.95).

Error 23 - Vat adjustment Employee Related Cost: Municipal Staff: Salaries Wages and Allowances: Basic Salary and Wages (R 945,14).

Error 24 - Vat adjustment Employee Related Cost: Municipal Staff: Salaries Wages and Allowances: Basic Salary and Wages (R 19,090.14).

Error 25 - Vat adjustment Employee Related Cost: Municipal Staff: Salaries Wages and Allowances: Basic Salary and Wages (R 1,137.54).

Error 26 - Vat adjustment Employee Related Cost: Municipal Staff: Salaries Wages and Allowances: Basic Salary and Wages (R 978,33).

Error 27 - Vat adjustment Employee Related Cost: Municipal Staff: Salaries Wages and Allowances: Basic Salary and Wages (R 822.03).

Error 28 - Vat adjustment Expenditure: Contracted Services: Outsourced Services: Transport Services (R 3,164.27).

Error 29 - Vat adjustment Expenditure: Operational Cost: Uniform and Protective Clothing (R 3,551.80).

Error 30 - Vat adjustment Expenditure: Bulk Purchases: Electricity: ESCOM (R 96,953.41).

Error 31 - Vat adjustment Expenditure: Bulk Purchases: Electricity: ESCOM (R 350,018.56).

Error 32 - Vat adjustment Expenditure: Bulk Purchases: Electricity: ESCOM (R 74,681.68).

Error 33 - Vat adjustment Employee Related Cost: Municipal Staff: Salaries Wages and Allowances: Basic Salary and Wages (R 10,359.44).

Error 34 - Vat adjustment Contracted Services: Contractors: Prepaid Electricity Vendors (R 21,028.22).

Error 35 - Vat adjustment Expenditure: Operational Cost: Uniform and Protective Clothing (R 2,040.50).

Error 36 - Vat adjustment Contracted Services: Consultants and Professional Services: Business and Advisory (R 11,457.08).

Error 37 - Vat adjustment Property Plant and Equipment: Cost Model: Computer Equipment (R 2,340.91).

Error 38 - Vat adjustment Property Plant and Equipment: Cost Model: Computer Equipment (R 2,092.65).

Error 39 - Vat adjustment Expenditure: Operational Cost: Uniform and Protective Clothing (R 6,715.80).

Error 40 - Vat adjustment Property Plant and Equipment: Cost Model: Electrical Infrastructure (R 7 ,825.97).

Error 41 - Vat adjustment Operational Cost: External Computer Service: Internet Charge (R 477.12).

Error 42 - Vat adjustment Contracted Services: Outsourced Services: Business and Advisory (R 444.36).

Error 43 - Vat adjustment Inventory Consumed: Consumables: Standard Rated (R 878.22).

Error 44 - Vat adjustment Inventory Consumed: Materials and Supplies (R 148.11).

Error 45 - Vat adjustment Revenue: Transfers and Subsidies: Operational: Monetary Allocations (R 141,142.44).

45. Prior period errors (continued)
Error 46 - Vat adjustment Contracted Services: Consultants and Professional Services: Business and Advisory (R 34,238.52).

Error 47 - Vat adjustment Operational Cost: Travel and Subsistence: Domestic: Transport without Operator (R 1,019.30).

Error 48 - Vat adjustment Operational Cost: Travel and Subsistence: Domestic: Accommodation (R 2,460.90).

Error 49 - Vat adjustment Operational Cost: Travel and Subsistence: Domestic: Transport (R 753.86).

Error 50 - Vat adjustment Operational Revenue: Incidental Cash Surpluses for R (77,059.35).

Error 51 - Vat adjustment Operational Cost: Printing Publications and Books (R 24,306.39).

Error 52 - Vat adjustment Expenditure: Operational Cost: Printing Publications and Books (R 1,189.32).

Error 53 - Vat adjustment Operational Cost: Printing Publications and Books (1,189.32).

Error 54 - Vat adjustment Operational Cost: Printing Publications and Books (R 13,848.23).

Error 55 - Vat adjustment Operational Cost: Uniform and Protective Clothing (R 1,317.96).

Error 56 - Vat adjustment Trade and Other Payable Exchange Transactions:Retentions (R 14,017.50).

Error 57 - Vat adjustment Trade and Other Payable Exchange Transactions:Retentions (R 61,283.06).

Error 58 - Vat adjustment Operational Cost: Uniform and Protective Clothing (R 2,432.50).

Error 59 - Vat adjustment Bulk Purchases: Electricity: ESCOM (R 1,699,117.87).

Error 60 - Vat adjustment Contracted Services: Outsourced Services: Mini Dumping Sites (R 24,168.42).

Error 61 - Vat adjustment Contracted Services: Outsourced Services: Mini Dumping Sites (R 32,224.55).

Error 62 - Vat adjustment Operating Leases: Machinery and Equipment (R 3,845.96).

Error 63 - Vat adjustment Operating Leases: Machinery and Equipment (R 43,632.40).

Error 64 - Vat adjustment Contracted Services: Contractors: Maintenance of Equipment (R 36,721.16).

Error 65 - Vat adjustment Expenditure: Inventory Consumed: Materials and Supplies (R 103.70).

Error 66 - Vat adjustment Expenditure: Inventory Consumed: Materials and Supplies (R 128,612.85).

Error 67 - Vat adjustment Expenditure: Contracted Services: Outsourced Services: Security Services (R 84,448.00).

Error 68 - Vat adjustment Contracted Services: Contractors: Maintenance of Equipment (R 283.12).

Error 69 - Vat adjustment Expenditure: Operational Cost: Uniform and Protective Clothing (R 1,394.40).

Error 70 - Vat adjustment Operational Cost: Printing Publications and Books (R 2,991.00).

Error 71 - Vat adjustment Expenditure: Operational Cost: Travel and Subsistence: Domestic: Accommodation (R 24,369.21).

Error 72 - Vat adjustment Expenditure: Operational Cost: Communication: Telephone Fax Telegraph and Telex (42,319.68).

Error 73 - Vat adjustment Trade and Other Payable Exchange Transactions:Retentions (R 221,077.05).

Error 74 - Vat adjustment Expenditure: Operational Cost: Printing Publications and Books (R 3,304.00).

Figures in Rand	2020	2019

45. Prior period errors (continued)

Error 75 - Vat adjustment Expenditure: Operational Cost: Printing Publications and Books (R 4,539.00).

Error 76 - Vat adjustment Expenditure: Contracted Services: Outsourced Services: Security Services (R 127,890).

Error 77 - Vat adjustment Operational Cost: Travel and Subsistence: Domestic (R 478.95).

Error 78 - Vat adjustment Expenditure: Contracted Services: Outsourced Services (R 1,998.29).

Error 79 - Vat adjustment Expenditure: Operational Cost: Advertising Publicity and Marketing (R 5,493.34).

Error 80 - Vat adjustment Expenditure: Operational Cost: External Audit Fees (R 136,004.99).

Error 81 - Vat adjustment Expenditure: Contracted Services: Outsourced Services: Business and Advisory (R 107,522.73).

Error 82 - Vat adjustment Expenditure: Contracted Services: Outsourced Services: Business and Advisory (R 866.94).

Error 83 - Vat adjustment Expenditure: Operational Cost: Uniform and Protective Clothing (R 681.10).

Error 84 - Vat adjustment Expenditure: Contracted Services: Outsourced Services: Security Services (R 34.79).

Error 85 - Vat adjustment Property Plant and Equipment: Cost Model: Water Supply Infrastructure (R 38,464.91).

Error 86 - Vat adjustment Salaries Wages and Allowances: Basic Salary and Wages (R 130.45).

Error 87 - Vat adjustment Contracted Services: Outsourced Services: Transport Services (R 419.79).

Error 88 - Vat adjustment Contracted Services: Outsourced Services: Transport Services (21,183.13).

Error 89 - Vat adjustment Expenditure: Operational Cost: Uniform and Protective Clothing (R 5,455.10).

Error 90 - Vat adjustment Inventory Consumed: Materials and Supplies (R 86,384.65).

Error 91 - Vat adjustment Property Plant and Equipment: Cost Model: Water Supply Infrastructure (R 65,509.92).

Error 92 - Vat adjustment Property Plant and Equipment: Cost Model: Sanitation Infrastructure (R 98,558.61).

Error 93 - Vat adjustment Property Plant and Equipment: Cost Model: Sanitation Infrastructure (R 29,986.11).

Error 94 - Vat adjustment Expenditure: Operational Cost: Uniform and Protective Clothing (R 778.40).

Error 95 - Vat adjustment Current Assets:VAT Receivable:Input VAT R 4,559,591.31.

The correction of the error(s) results in adjustments as follows:

Figures in Rand	2020	2019

45. Prior period errors (continued)

Statement of financial performance

Other revenue	-	859,928
Government grants & subsidies	-	(144,561)
Employee related costs	-	(33,235)
Repairs and Maintenance	-	(113,213)
Bulk purchases	-	(2,220,772)
Contracted services	-	(212,373)
Advertising - General Expenditure	-	10,490
Auditors remuneration - General Expenditure	-	360,344
Bank charges - General Expenditure	-	(257,939)
Consulting and professional fees - General Expenditure	-	164,835
Material and stock - General Expenditure	-	215,249
Manufacturing expenses - General Expenditure	-	102,054
Printing and stationery - General Expenditure	-	50,178
Protective clothing - General Expenditure	-	28,778
Telephone and fax - General Expenditure	-	58,902
Training - General Expenditure	-	2,678
Travel - local - General Expenditure	-	29,251
Other general expenses - General Expenditure	-	8,342
Rental expenses - General Expenditure	-	3,846
Rehabilitation of land fill sites - General Expenditure	-	85,485
Chemicals - General Expenditure	-	14,220

46. Irregular expenditure

Opening balance as previously reported	75,408,642	66,289,900
Correction of prior period error	-	(21,195,974)
Opening balance as restated	**75,408,642**	**45,093,926**
Add: Irregular Expenditure - current	49,630,893	40,609,699
Less: Amount written off - current	-	(10,294,983)
Closing balance	**125,039,535**	**75,408,642**

47. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements.

Various emergency repairs and services to the value of R4,835,896.19 were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the Chief Financial Officer who considered them and subsequently approved the deviation from the normal supply chain management regulations. Details of the deviations are contained in the municipality's deviation register.

48. Risk management

Financial risk management

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Notes to the Annual Financial Statements

48. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	**2020**	**2019**
Cash and Cash Equivalent	39,575,750	40,680,400
Receivables from Exchange Transactions	36,756,640	38,046,329
Receivables from Non-Exchange Transactions	116,139,397	116,529,198

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Foreign exchange risk

The municipality does not have exposure to foreign exchange risks.

49. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus (deficit) of R 1,589,137,616 and that the municipality's total liabilities exceed its assets by R 1,589,137,616.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

50. Unauthorised expenditure

Opening balance as previously reported	7,203,480	9,004,041
Opening balance as restated	**7,203,480**	**9,004,041**
Add: Expenditure identified - current	3,724,433	3,747,997
Less: Approved by council	(3,724,433)	(5,548,558)
Total awaiting Council approval	**7,203,480**	**7,203,480**

Unauthorised expenditure of R3,274,433 was approved by Council for the year 2019/20 on the 29th of October 2020, a total of R 5 548 558 has been investigated and approved by Council for the year 2018/19.

51. Fruitless and wasteful expenditure

Opening balance as previously reported	11,023,784	11,098,749
Opening balance as restated	**11,023,784**	**11,098,749**
Add: Expenditure identified - current	3,556,171	5,034,790
Less: Written off by Council	(3,520,454)	(5,109,755)
Total awaiting Council approval	**11,059,501**	**11,023,784**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

51. Fruitless and wasteful expenditure (continued)

The above fruitless and wasteful expenditure relates to interest charged on overdue accounts for accounts from the following service providers, Eskom, SARS, Munsoft, Telkom as well as bookings made from which officials failed to appear for their respective bookings.

Total of R3,520,454 has been investigated, this relates to interests charged on the overdue ESKOM account and subsequently written off by Council for the year 2019/20 and a total of R 5,109,755. has been investigated and written off by Council for the year 2018/19.

52. Events after the reporting date

There were no material events that required an adjustment to the annual financial statements after the reporting date.

53. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	1,000,000	949,323

Material losses

Water	2,685,052	2,685,052

Audit fees

Current year subscription / fee	5,268,132	4,946,416

PAYE and UIF

Current year subscription / fee	12,489,005	12,660,289

Pension and Medical Aid Deductions

Current year subscription / fee	16,629,849	15,785,113

VAT

VAT payable	4,695,589	8,032,790

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

53. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2020:

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
N.T Masha	-	1,427	1,427
J.T Duma	-	4,789	4,789
T.E Scheefers	-	24,940	24,940
S.S Tshabalala	-	324	324
S.I Skhosana	-	8,309	8,309
R. Ndlovu	-	10,229	10,229
D. Scheefers	-	13,635	13,635
	-	**63,653**	**63,653**

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
N.T Masha	1,276	4,913	6,189
J.T Duma	2,183	24,178	26,361
T.E Scheefers	2,183	24,178	26,361
S.S Tshabalala	-	324	324
S.I Skhosana	870	5,770	6,640
R. Ndlovu	967	341	1,308
D. Scheefers	1,391	11,691	13,082
	8,870	**71,395**	**80,265**

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

The deviations disclosed below are in terms of the following regulations:- Section 36(1) (a) (i) and Section 36(1) (h)(ii).

	2020	2019
Incident		
Deviation incurred	4,785,966	2,973,465

54. Operating surplus

Operating surplus for the year is stated after accounting for the following:

	2020	2019
Operating lease charges		
Plant and equipment		
• Contractual amounts	6,835,201	5,216,567

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

54. Operating surplus (continued)

Loss on sale of property, plant and equipment	(4,514,831)	(1,138,975)
Impairment on property, plant and equipment	7,145,714	1,712,168
Impairment on trade and other receivables	75,539,989	93,151,913
Reversal of impairment on trade and other receivables	840,143	61,246,178
Gain on biological assets and agricultural produce	23,060,677	20,925,730
Amortisation on intangible assets	-	116,834
Depreciation on property, plant and equipment	34,584,519	56,403,088
Employee costs	110,515,780	105,276,763

55. Acturial Gains or losses

Gain or loss on landfillsites	1,097	(20,925,730)

56. Fair value adjustments

Investment property (Fair value model)	(3,611,000)	(30,315,992)

57. Budget differences

Material differences between budget and actual amounts

57. Budget differences (continued)

Service Charges
National lockdown has an impact on this vote not to perform as expected.

Rental of facilities and Equipment
Anticipated rental from Hostels taken over, did not materialised.

Other Income/ Operational revenue
Some revenue items under performed.

Interest revenue
High collection rate occurred.

Property rates
Objection made on the valuation roll resulted decrease in the market value, hence the property rate vote underperform as anticipated.

Grants and subsidies
Donation and grants received as anticipated.

Fines penalties and Forfeits
More traffic fines where received than what was budgeted for.

Employee Cost
No material variances.

Remuneration to Councillors
No material difference noted.

Depreciation and amortisation
Due to prior year correctiond.

Impairment , Loss on disposal , Fair value adjustements
Due to increase in debtor's impairment.

Finance Costs
Provision was made for landfill site and the historical debt in creditors resulted in interest charged.

Bulk purchases
Increase in Eskom tariffs and seasonal tariffs, resulted a hike in this segment vote.

Contracted services
No material variance in vote.

General expenditure
Underspent due to Covid 19 Lockdown, some functions was not performed.

Gains and losses
Less losses were anticipated when the budget was prepared.